

Summary

The Brazilian market for construction machinery is estimated at US\$ 2.2 million. The Public-Private-Partnership bill (PPP) that was recently approved by the Brazilian federal government should bring a new flow of investments and contribute for the expansion of this market over the next few years. Best prospects for US suppliers include special types of cranes and drilling equipment, concrete plants, topography equipment, earth moving equipment, mini-loaders and mini excavators.

Market Overview

The Brazilian market for construction machinery is estimated at US\$ 2.2 billion. Multinational manufacturers such as Caterpillar, CNH, Volvo, Komatsu and Ingersol Rand with production facilities in Brazil predominantly supply the market. The production of off-road construction machinery in 2004 reached 13,376 units, an expansion of 63 percent over 2003. The growth trend continues in 2005, with production volume in the first eight months 32.4 percent higher compared to the same period in 2004. Although investments made by private companies in infrastructure projects have contributed for this positive result, it has been the increased demand in the international market that is causing this tremendous expansion of construction machinery production in Brazil.



Off-Road Construction Machinery – Production and Sales Statistics (in units)

Product	2003	2004	2004 Jan-Aug	2005 Jan-Aug	Product	2003	2004	2004 Jan-Aug	2005 Jan-Aug
Crawler Dozers					Motor Graders				
- Production	1520	2229	1455	1776	- Production	1388	2768	1879	2108
- Domestic Sales	450	530	349	306	- Domestic Sales	312	383	241	351
- Exports	1070	1722	1126	1410	- Imports	1	6	5	0
					- Exports	1058	2398	1647	1716
Backhoe Loaders					Compactors				
- Production	1838	2617	1735	2441	- Production	393	557	356	577
- Domestic Sales	1196	1320	894	1131	- Domestic Sales	186	247	162	216
- Exports	602	1394	885	1247	- Imports	11	15	11	14
Wheeled Loaders					- Exports	211	316	159	354
- Production	2233	3398	2198	3135	Skid Steers				
- Domestic Sales	1502	1944	1266	1339	- Imports	90	81	39	101
- Imports	23	40	14	15					
- Exports	627	1614	1078	1415	TOTAL				
Hydraulic Excavators					- Production	8224	13376	8893	11777
- Production	786	1517	1090	1292	- Domestic Sales	4350	5356	3490	4414
- Domestic Sales	654	904	560	962	- Imports	263	354	215	450
- Imports	131	212	146	320	- Exports	3805	8504	5705	6962
- Exports	222	798	648	462					
Off-Highway Trucks									
- Production	66	290	180	448					
- Domestic Sales	50	28	18	109					
- Imports	7	0	0	0					
- Exports	15	262	162	358					

(Source: Brazilian Association of Machine Manufacturers – ABIMAQ)

Market Trends

Annual investments in infrastructure projects in Brazil are approximately US\$ 23 billion, which represents only 1.5 percent of the GDP. This amount is very small compared to other developing countries like India and China that invest 5.5 percent and 9 percent of the GDP, respectively, in infrastructure projects. The Public-Private Partnership bill (PPP) that was recently approved by the Brazilian federal government should bring a new flow of investments in infrastructure projects. Although the PPP will not resolve all infrastructure shortages, it is an important step for the implementation of various infrastructure projects.

The Brazilian federal government's multi-year development plan (2004-2007) includes the following investments in infrastructure projects:

SECTOR	VALUE US\$ billion
Transportation & Logistics	14
Energy (electrical power, oil and gas)	69
Water, sewage, and urban infrastructure	8
Housing projects	7
Water resources	2
TOTAL	100

Several State governments are also implementing the PPPs at the state level, which should result in an increased demand for construction machinery.

Competition

Local production satisfies almost entirely the Brazilian market for construction machinery. As mentioned earlier, the world's leading manufacturers of construction machinery have been producing in Brazil for many years. In fact, they are expanding their product families in Brazil and are successfully exporting to other Latin American countries, Europe, Asia, and the United States. Therefore, new suppliers will face tough competition from the companies already established in the country.

U.S. suppliers of parts and components for construction machinery will find good business opportunities because a considerable portion of components is still being imported. In some instances OEMs import directly from manufacturers, in other cases they import through their headquarters. The imported parts are usually the ones that aggregate high technology such as engines, transmissions, and hydraulic and electronic components. Since a considerable percentage of equipment manufactured in Brazil is exported, OEMs take advantage of tax exemptions on imported components under the drawback system. However, there is a strong initiative among the OEMs to develop qualified manufacturers of parts and components locally in order to reduce production costs. Therefore, manufacturers of construction machinery and suppliers of parts and components would find better opportunities in the

long run if they considered a joint venture partnership or technology transfer to a local company. Manufacturing costs in Brazil are considerably lower compared to the United States or other European countries.

Major suppliers of construction machinery in Brazil include Agco, Caterpillar, CNH (Fiat/Case/New Holland), Komatsu, Randon, Volvo, Ingersol Rand, Dynapac, Ciber, and BobCat. Products manufactured in the country by these companies include crawler dozers, backhoe loaders, wheeled loaders, hydraulic excavators, motor graders, compactors, and off-road trucks.

End Users

Government procurement of construction machinery is very small. Usually the government hires a private contractor to implement a project and the contractor is responsible for the machinery needed for such a construction. In the rare cases when the government buys the equipment directly, the purchase is based on the minimum price.

Until a few years ago the government was responsible for the construction and maintenance of all infrastructure projects in Brazil. However with the privatization of almost all public services, the private sector is today responsible for about 85 percent of investments, while the government is responsible for only 15 percent.

Major buyers of construction equipment in Brazil are the contractors involved in infrastructure projects, as well as industrial construction. They usually buy from a local dealer and their decision is based on price, after-sales services, and repair and maintenance services. The adaptability of the equipment in different situations and projects and good re-sale value are also taken into consideration when they buy equipment.

The top ten contractors in Brazil based on 2004 results are:

Company	Gross Revenue US\$ 1,000	Equipment Fleet (units)	# of Employees
Construtora Norberto Odebrecht	1,212,603	997	21863
Camargo Corrêa	423,407	1731	9129
Queiroz Galvão	387,102	2429	7450
Andrade Gutierrez	332,226	1002	9027
OAS	287,161	705	5624
Delta Construções	184,177	254	4410
Mendes Júnior	141,910	N/A	N/A
Walter Torre Jr.	132,050	N/A	592
Serveng-Civilsan	122,810	N/A	N/A
Construcap	118,725	410	2393

(Source: O Empreiteiro Magazine – June 2005)

Sales Prospects

Although most of the equipment is manufactured locally, the list below still represents best prospects for U.S. suppliers:

- Rough terrain hydraulic cranes
- Crawler lattice-boom cranes
- Cranes above 60 tons
- Tower cranes above 100 tons
- Hydraulic perforation equipment
- Special equipment to operate in small diameter tunnels
- Heavy earthmoving equipment
- Large concrete plants
- Paving equipment
- Topography equipment
- Mini-loaders and mini-excavators
- Non-destructive drilling and tunneling equipment
- Equipment parts and components

According to the president of the Brazilian Association for Equipment Technology and Maintenance (Sobratema), imported equipment represents only 15 percent of the fleet owned by large contractors in Brazil, but the value of such equipment represents about 60 to 70 percent of the total value.

Market Access

All imports in Brazil are subject to a number of taxes and fees, which are usually paid during the customs clearance process. There are four main taxes that account for the bulk of importing costs:

Import duty: is a federal tax levied on foreign products that enter Brazilian territory and is calculated on top of the CIF value. The import duty for construction machinery is 14 percent, but in cases when no similar equipment is produced in the country this tariff is reduced to 4 percent. Import duty for parts and components of construction machinery is 8 percent on average.

Industrial Products Tax (IPI): is a federal tax levied on both domestic and imported manufactured products. It is assessed at the point of sale by the manufacturer in the case of domestically produced products, and at the point of customs clearance in the case of imports. The IPI is calculated on top of the CIF value plus import duty. The IPI for construction machinery varies from zero to 5 percent.

Merchandise Circulation Tax (ICMS): is a state government value-added tax, applicable to both imported and domestic products. The ICMS tax on imports is assessed over the CIF value, plus import duty, plus IPI as its calculation base. The calculation of this tax is done in a way that the ICMS tax is calculated on top of itself. The ICMS rate varies among

states. In the state of São Paulo it is 18 percent, but in most states it is 12 percent.

PIS and Cofins: these taxes are applicable to both domestic and imported products and services. They are calculated in an extremely complex way on top of themselves. In general, the total effect of these fees sums up to approximately 12.63 percent of the CIF.

Products manufactured in Brazil are also subject to the above taxes, but American companies should keep in mind that, as the taxes are calculated in a compounding manner over the CIF value plus the import duty, the overall IPI, ICMS, PIS and Cofins of an imported product will be significantly higher than that of a locally manufactured product. Also, one should not forget that when distributors and trading companies sell the product, they are compensated for those taxes collected at the time of import.

In addition to the above, there are other costs and fees such as the warehousing cost, terminal handling fee, customs brokers' union fee, customs brokerage fee, transportation and bank costs, that all together usually come to approximately 70 percent of the FOB price.

Market Entry

In order to be successful in Brazil, U.S. manufacturers must have a well-informed local representative or distributor who can offer after sales services, replacement parts, repair, and maintenance services. Due to the size of the country most distributors cover only specific regions, but it is important to find a company that is familiar with import legislation and overall market trends to guarantee continuous sales and stay abreast of changes in import requirements.

When signing an agent or distribution contract with a Brazilian firm, it is important to use the services of law firms that are familiar with Brazilian legislation. Commercial distribution contracts are regulated by general Brazilian commercial law and not by specific legislation. However, there is specific legislation regulating the relationship between the foreign company and the Brazilian agent or sales representative. Contract clauses are freely negotiated between the U.S. company and the local agent, but the monetary compensation payable to the agent in case the contract is broken is established by law and is usually very favorable to the agent.

The U.S. Commercial Service offers a variety of services to assist U.S. exporters find a business partner. For more information on those services and reports on this sector please look at www.export.gov/market_research or contact your local U.S. Export Assistance Center, through www.export.gov/eac.

Key Contacts

For more information about export opportunities in this sector contact US Commercial Service Commercial Specialist Marina Konno at Marina.Konno@mail.doc.gov

The U.S. Commercial Service Brazil provides a range of products and services that can help you succeed in this market. Please refer to www.buyusa.gov/brazil for more information on what we can do to help you succeed in Brazil.

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For a good overview of exporting to Brazil, please look at our US Country Commercial Guide to Brazil at www.focusbrazil.org.br/ccg

Upcoming Trade Shows

FEICON – International Construction Industry Trade Fair
April 4-8, 2006
Website: www.feicon.com.br



M&T Expo – International Construction and Mining Equipment Exhibition
São Paulo - June 6-10, 2006
www.mtexpo.com.br



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